

**SOUTH CAROLINA  
DEPARTMENT OF CORRECTIONS  
COLUMBIA, SOUTH CAROLINA**

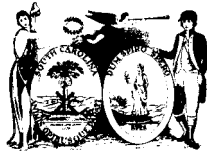
**STATE AUDITOR'S REPORT**

**JUNE 30, 2001**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 14, 2002

The Honorable Jim Hodges, Governor  
and  
Mr. Gary D. Maynard, Director  
South Carolina Department of Corrections  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Corrections, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Prison Industries Deposits in the Accountant's Comments section of this report.

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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

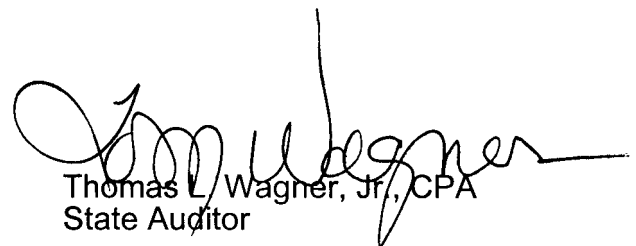
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5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2001, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2001. Our findings as a result of these procedures are presented in Prison Industries Deposits in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Report on Applying Agreed-Upon Procedures on the Department resulting from the independent accountant's engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Prison Industries Deposits in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Corrections and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA  
State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.



## **PRISON INDUSTRIES DEPOSITS**

We tested a sample of five cash receipts pertaining to the Department's Prison Industries Division to determine if the receipts were timely deposited. Because the Division does not record receipt dates, we estimated the date funds were received using check dates. We found that four of the five receipts tested included checks written over one week and up to five weeks prior to deposit. Proviso 72.1 of the fiscal year 2001 Appropriation Act requires receipts to be deposited at least once each week when practical.

We also tested a sample of three cash receipts from fiscal month 01 of fiscal year 2002 to determine if the receipts were recorded in the proper fiscal year. We found that these receipts included amounts received in fiscal year 2001 in advance of the services provided. Prison Industries personnel told us that for certain jobs requiring advance payment, it is Division practice to hold payment until after the jobs are completed. However, the Division did not deposit and record these receipts as deferred revenue in fiscal year 2001 due to certain accounting system limitations in processing work orders. Section 3.2.2.1 of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires revenues received in advance to be recorded as deferred revenue.

We recommend that the Prison Industries Division document receipt dates for all of its cash receipts. The Division should modify its accounting system and/or receipt procedures as necessary in order to deposit all receipts at least weekly in accordance with State law. Finally, the Division should deposit and record revenues received in advance as deferred revenues as required by the STARS Manual.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the Report on Applying Agreed-Upon Procedures on the Department for the fiscal year ended June 30, 2000, and dated May 23, 2001. We determined that the Department has taken adequate corrective action on each of the findings except for the Receipts Not Deposited Timely comment which we have repeated in the Prison Industries Deposits comment.

## **MANAGEMENT'S RESPONSE**

MANAGEMENT'S RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. PRISON INDUSTRIES DEPOSITS

This is the second consecutive year that the Department has been cited for failure to deposit Prison Industries receipts in a timely manner. Prison Industries will be required to prepare a log of daily receipts and then deposit those receipts in a timely manner. This procedure will be reviewed by the Department's Internal Audit staff.

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